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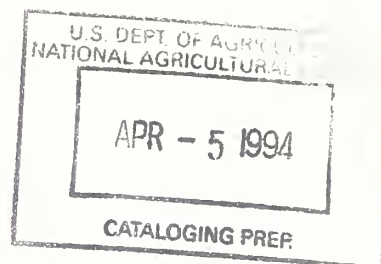


United States
Department of
Agriculture

Office of
Grants and
Program Systems

Proceedings of the Conference on Land Acquisition/ Development and Entrepreneurial Ventures by Historically Black Colleges and Universities— June 26-27, 1984

Summary



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Opening Remarks

*Dr. Ezra A. Naughton,
Director, Minority Research and Teaching Programs,
U.S. Department of Agriculture*

Dr. Naughton opened the meeting with a brief history of 1890 land-grant colleges and universities, and an evaluation of their relationship with the U.S. Department of Agriculture (USDA). He described the current Administration's growing support for the important role these land-grant institutions play in current agricultural research, extension, and teaching, specifically in researching problems that could alleviate the situation faced by Black and other limited resource farmers today. USDA has significantly increased its funding for agricultural research in the 1890 institutions over recent years; today basic research funding approaches \$22 million a year. In 1982, \$5 million over 5 years was authorized by Congress for improving facilities in the 1890s. Facilities funding is now in its second year. The Department of Agriculture recently made public recommendations contained in a report prepared by the Secretary of Agriculture's Task Force on the Decline of Black Farming in the United States. This report deals with the substantial loss of Black farmers. Among the recommendations made to the Secretary by the task force was one which would strengthen the ability of the 1890 institutions to assist Black farmers. To achieve this end, the task force recommended that the USDA should:

- Develop special categories of research grants to address special problems of small farmers, including Black farmers. Ensure that reviewers of proposals know the special strengths and circumstances of the 1890 institutions;
- Institute more effective uses of the Intergovernmental Personnel Act to promote staff exchanges, enhance understanding of the 1890 role of the 1890 institutions, increase liaison between 1890 institutions and USDA agencies;
- Encourage personnel exchanges between 1890 and 1862 institutions as well as between private agricultural industry and the 1890 institutions;
- Enter into contractual agreements with 1890 institutions for research and outreach work on the special problems of Black farmers;
- Through the Extension Service, carefully review State Extension plans for work to ensure that adequate attention and resources are devoted to the special problems of Black farmers.

Dr. Naughton observed that it is imperative that the 1890 institutions and Tuskegee enhance and solidify, as possible, their economic base to utilize in the most effective way their potential as a group and as individual educational institutions, providing purposeful programs in instruction, research,

and public service. President Reagan issued an Executive order in 1981 expressing a strong commitment to the historically Black colleges, requiring the closest possible government agency cooperation with them and encouraging participation from the private sector in the institutions' further development.

Dr. Naughton hoped that specific recommendations would arise from this meeting that would unite the land-grant institutions, USDA, and the private sector in partnerships that would encourage economic development in relevant areas in the colleges and universities. This, at the same time, would promote the needed development of human capital and agricultural expertise within the institutions and the minority community.

Presentations—“The Needs”

Dr. William Hytche

*Chancellor of the University of Maryland-Eastern Shore and
Chairman, Council of Presidents of 1890 Institutions.*

Dr. Hytche enumerated several problems faced by the small Black farmer, including loss of Black-owned farm land, decline in the number of Blacks entering the field of agriculture, lack of available capital for maintenance and expansion, and the perception of agriculture in the Black community. In order to resolve these problems effectively, and to maintain their commitment to education and research, the 1890 land-grant institutions and Tuskegee need to be competitive. They need their land base and other relevant economic resources to strengthen endowments, attract income, and use as collateral.

Dr. Benjamin Payton

President of Tuskegee Institute

Dr. Payton discussed the importance of land resources to colleges and universities with specific reference to the historically Black institutions. Black colleges represent the most significant pools of concentrations of capital in the country. Unfortunately, the colleges have not developed their land resources in the most effective manner. At Tuskegee, The Equitable Life Assurance Society of the United States, conducted a careful detailed study of the institute's extensive land holdings to determine the parameters, value, and legal status of the land. Tuskegee can now use the information provided by this study to further develop its land profitably.

He stressed the idea that planning for land use is not an end in itself, but rather a means to achieving other goals, and part of these goals is addressing the needs of the surrounding community. Therefore, the institutions must consider all proposed land development projects in their social and political context. A few general policy objectives for land use mentioned by Dr. Payton are:

- A greater commitment to helping increase the world food supply and world food security, and expanding the food trade.
- Strong systematic programs in rural development to combat the poverty of rural areas.
- The development of farming systems that address the issues of the small farmer.
- The development of human capital—teaching farmers business methods and recruiting youth who view agriculture as a business.

Responses

Mr. Samuel Cornelius

Special Assistant to the Secretary of Agriculture

Mr. Cornelius identified the four issues this conference must address as profits, development, ownership, and land. If the historically Black colleges and universities are to improve the plight of the small Black farmers, they must first improve their own economic status and management. This conference will discuss financial alternatives available to the colleges.

He described the encouragement the colleges receive from this administration. A Department of Agriculture task force has been established to review the effectiveness of USDA's programs addressing the social progress of the Black farmers and to study the decline of Black farm land. The Secretary of Agriculture has indicated the Department's three objectives regarding the 1890 institutions. The primary objective is to keep the colleges funded at all costs. Also, the colleges must be made aware of the risks involved in financial ventures, and they must develop a strong alumni network.

The most effective strategy for improving one's economic status is to promote an expansion of existing local minority-owned business. This would develop the local minority economy, provide job opportunities, and experience in business and management. Projects that occur outside of the local minority community cause the money to flow out of the community as well. An institution might encourage large outside White firms to open a local branch. However, the branch should be established as a locally operated subsidiary, with appropriate provisions for the transfer of ownership. The resources of the Department of Agriculture are available, where feasible, to be used by the 1890 land-grant institutions.

Ms. Kirsten Moy

Vice President, Office of Social Investments, The Equitable Life Assurance Society of the United States, New York, N.Y.

Ms. Moy discussed the four requirements for a successful development project.

1. Prepare a realistic assessment of one's own resources—manpower, land, and so on. Choose a project that takes full advantage of the available resources and, preferably, that relates to the function of the university (for example, a hospital or a research park).
2. Know your economic goals and objectives. Is the project designed to increase employment? Income?
3. Determine the market demand through a needs assessment.
4. Bring in any outside resources that are available.

One idea raised in the discussion following Ms. Moy's presentation was that consideration might be given to tapping the expertise of development companies in the private sector which have not yet been approached by the minority institutions.

Mr. Fred Greer

*Citizen's and Southern National Bank, Atlanta, Georgia—
Senior, Vice President, Agribusiness Department*

Mr. Greer explained that the smaller family-owned farms are doing best in the face of today's rural economic situation. The United States is currently producing too much food domestically and must either increase exports, decrease production, or a combination of the two. Because the larger mechanized farms overproduce and have too much capital invested in the operation, the small farms may become the best survivors.

He strongly emphasized the need to view agriculture as a business enterprise. More time, effort, and research needs to focus on agribusiness, or the agricultural market. Most opportunities for young people entering the field of agriculture lie in marketing rather than in production. Farmers must be taught basic business skills. The industry has no chance for survival without incorporating business and marketing principles.

When asked how farmers could get a share of the profits from the agribusiness chain (distribution, wholesaling, etc.), Mr. Greer answered that the best system is an organized marketing program at the farm level, involving production control when necessary. He added that he does not foresee a major trend of corporate involvement in agriculture; the industry is not profitable enough.

Mr. Gus Connelly

Citizen's and Southern National Bank, Executive Vice President

Mr. Connelly spoke about the number of current joint venture projects between the private and independent sectors. The Atlanta real estate agencies are especially aware of joint venture opportunities with minority organization participation, and they have appraisal and related expertise that could be of service to the Black institutions.

He warned the institutions to be careful about concentrating on projects that are in vogue. Certain types of projects generate more interest within the private sector—high-technology industries are a current example. However, because so many compete for a limited share of the market, not everyone will make a profit. Therefore, the institutions should seek an empty niche in the market—one that they are uniquely qualified to fill.

Tax Implications

Mr. Jose Trias, Esquire

Paul, Weiss, Rifkind, Wharton & Garrison

Colleges and universities that are exempt from Federal income tax by reason of section 501 (c) (3) of the Internal Revenue Code, and that are contemplating economic activities should structure and limit such activities so as not to jeopardize their tax-exempt status. The following comments are addressed to colleges and universities whose tax exemption derives from section 501 (c) (3) of the Code and whose economic activities must, as a result, be consistent with the standards of that section. The effect of section 115 of the Code exempting from income tax the income of a State or political subdivision derived from exercising essential Government functions is not considered.

Overview

Section 501 (c) (3) applies to organizations that are organized exclusively for charitable purposes and operated primarily to accomplish charitable goals. Therefore, it is possible for an exempt institution to engage in some business activity; if such activity represents more than an insignificant amount of the organization's operations, it may jeopardize the organization's tax-exempt status. Consult a tax lawyer before initiating any entrepreneurial activities.

Business activity that could jeopardize the tax-exempt status of charitable organizations refers to activity that is regularly carried on and unrelated to the exempt purpose of the exempt entity. Ambiguity exists in determining whether a given project is an "unrelated" or "substantially related" activity, and there have been inconsistencies among individual cases. Income from substantially related activities is not taxable and does not jeopardize exempt status.

Specific Ways to Generate Income

- Incorporate the business venture as a separate entity and own stock. Although the business corporation will be taxed, the college retains its tax-exempt status and the stock dividends are not taxable. Also, establishing a separate subsidiary isolates the institution's charitable assets from potential business liabilities.
- Establish joint ventures with the private sector to market the university's research. In the case of a college or university, income generally derived from research is not taxable.
- Lease land. Rents from real property are generally not taxable, and the passive renting activity should not jeopardize the exempt status.

The new 1984 tax law has two important implications for colleges and universities, including the historically Black colleges.

- Enter a business venture with a partner from the private sector. The charitable organization can retain its tax-exempt status if the partnership agreement is properly structured. The agreement must not impose on the exempt entity any obligations that conflict with its exempt purpose. The income will generally be taxable.
- Under the new law, rent received by a college or university from leasing leveraged improved or unimproved real property remains tax free; but only if (a) the debt is straight debt, (b) the price for the acquisition or improvement is a fixed amount, and (c) certain other technical requirements are met. If the college or university is a partner of a partnership that rents such property, its share of rental income will be taxable unless either (i) the partnership is a straight up and down partnership—that is, one in which each partner is allocated the same fixed share of every item of income, gain, loss, deduction, credit, and basis, or (ii) all of the partners are colleges or universities, affiliated support organizations, or pension trusts.
- The new law discourages sale leaseback by colleges, universities, and other tax-exempt entities of their campuses or other properties. Previously these arrangements allowed a college or university to increase its cash flow by transferring to a taxable entity the tax benefits of depreciation deductions that the college or university could not use while retaining substantial use, control, and enjoyment of its campus. However, under the new law, real property subject to such an arrangement will not qualify for 18-year accelerated cost recovery deductions. Instead, it will be depreciable on a straight line basis over 40 years, making the tax benefits for the for-profit entity less valuable. The new law is more lenient with regard to new buildings, and in some situations this arrangement is still attractive.

Recommendations

Group 1—Dr. Raymond Burse, President, Kentucky State University

General Notes

Economic development in the Black community is the key. The colleges must learn to think bigger and consider broad implications.

As public institutions, most of the land-grant colleges face more restrictions than private institutions. The following recommendations apply primarily to public institutions.

Specific Recommendations

- Meet with legal counsel—what are we able to do as public institutions?
- Initiate dialogue and an educational process between the legislature and the public Black colleges to determine how funds from entrepreneurial ventures may be used by the institution.
- Come together as a group to discuss the best allocations of land resources, since no single institution has all the entrepreneurial resources. Also, interested Black corporate executives should be identified and invited to meetings to help brainstorm.
- Address the problem of loss of Black-owned farm land by establishing an educational program for Black landowners concerning the value of their property and possibilities for development.
- Seek other lending institutions, in addition to banks and insurance companies (for example, real estate agencies).
- Establish joint ventures with proven developers who possess the expertise and reputation in financial community that the colleges lack.
- Conduct feasibility studies before starting risky ventures, especially among colleges making development decisions independently. Foundation grants may be available.

General problem—an absence of realization among predominantly White companies or lending institutions that resources for research and development exist in Black institutions. A collective educational effort is needed on a city-by-city, State-by-State basis.

Group 2—Dr. Ernest Holloway, President, Langston University

Group 2 agrees to all of the statements by Group 1, and has three additional recommendations.

**Specific
Recommendations**

- Each of the 1890 institutions must develop an exploratory and orientation climate. It is the responsibility of the institutions' leaders to create this climate through orientation meetings with faculty and students and all other appropriate means.
- Each public institution must look at land resources other than those it currently owns, seeking new lands with more control and concern by its governance.
- Seek governmental agency assistance in feasibility studies.

Group 3—Dr. James Shuford, Dean, Alabama A&M University (representing President, Richard D. Morrison)

**Specific
Recommendations**

- USDA and the private sector should continue programs (workshops, conferences, etc.) that familiarize Black college presidents with joint venture and initiative development.
- The colleges should evaluate existing programs, determining what resources such as faculty expertise, landholdings, and facilities or funds are available for joint venture initiatives.
- Consider joint projects with other universities.
- Establish a procedure for initiating joint ventures.
 - a. Promote the entrepreneurial concept within the university.
 - b. Develop project ideas; assign a committee for this purpose.
 - c. Conduct a feasibility study on a selected project.
 - d. If the results of the study are positive, select a board and pursue funding.

Group 4—Dr. Frederick Humphries, President, Tennessee State University

General Notes

There are fundamental differences between public and private institutions that must be realized.

- Public institutions generally lack a one-to-one relationship between the school and the board of directors, board members are politically appointed and usually do not have their own resources.
- Land is given to the board for the school's use, not to the school directly.
- Public sentiment is that public colleges and universities do not need additional funds.

Specific Recommendations

The following recommendations apply to public institutions.

- Establish a list of corporations interested in public sector entrepreneurial ventures. Conduct analysis and data gathering activities to determine current level of interest.
- Private and government agencies should commit funds to the development of a protocol for public institutions to participate in entrepreneurial activity with the private sector.
- Press for legislation giving tax benefits to companies that invest in entrepreneurial ventures of the Black institutions.
- Emphasize human resource development. A training program in real estate development management is recommended due to the lack of expertise in real estate within the Black community.
- Conduct ongoing and better dialogues with various private and governmental agencies similar to this meeting.
- Canvas cluster organizations for support of entrepreneurial ventures based on mutual interests.
- Commission papers to address important issues in greater depth. Recommended paper topics include:
 - a. Focus on definition.
 - b. Should project management be internal or external?
 - c. A fuller presentation on the difference between public and private institutions.

Mrs. Dorothy Orr—The Equitable Life Assurance Society of the United States, New York, N.Y.

- Establish a data base with specific information on what has been done at other institutions, including predominantly White institutions, and how it was accomplished.
- Submit grant proposals for feasibility study funds.

Discussion—Major Issues Raised

- When the public institutions propose State legislation, should the legislation refer to “small landowners” or “Black landowners?” In many cases, legislation on behalf of “small landowners” is more likely to be passed. However, such legislation may not address the specific needs of the Black farmer.
- All groups proposed creating some form of consortium of the Black land-grant institutions. One objection was raised, under the belief that each college should develop, or seek from outside, the resources it needs to conduct its activities independently. However, the general consensus was that the institutions should share their ideas and expertise, since no single institution has sufficient resources to meet all its needs.
- Should the institutions directly engage in entrepreneurial activity, or do they better serve by stimulating such activity within the wider community? The fear was expressed that in a community where there is a paucity of economic activity, a university engaged in entrepreneurial ventures may be perceived as an “economic sink” rather than as a stimulus for the community’s own economic development.
- Will Whites patronize Black-owned business? Is racism or poor management the cause of Black business failures?

Reflection on the Conference

Several of the Black land-grant institutions’ presidents, discussing the effectiveness of the conference, remarked that it exposed them to an entirely new area of land development; previously they had not thought in terms of entrepreneurial activities and joint ventures with the private sector. The conference made the college presidents aware that there are companies, like Equitable, that are interested in participating in joint venture projects with the minority community. Many had originally expected the conference to focus only on the issues of Black-owned farm land, but felt that the additional discussions dealing with entrepreneurial ventures were equally as important for the immediate and future needs of the institutions.

Appendix

***Presidents of 1890 Land-Grant Institutions and Tuskegee Institute**

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*As of January 1985

1890 Land-Grant Institutions



- 1. Alabama A&M University
- 2. Alcorn State University
- 3. Delaware State College
- 4. Florida A&M University
- 5. Fort Valley State College
- 6. Kentucky State University
- 7. Langston University
- 8. Lincoln University
- 9. North Carolina A&T State University

- 10. Prairie View A&M University
- 11. South Carolina State College
- 12. Southern University
- 13. Tennessee State University
- 14. Tuskegee Institute
- 15. University of Arkansas-Pine Bluff
- 16. University of Maryland-Eastern Shore
- 17. Virginia State University

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